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February 6, 2023

VIA ELECTRONIC SUBMISSION

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Principles for Climate-Related Financial Risk Management for Large Financial Institutions (Federal Reserve Board Docket No. OP-1793)

Dear Ms. Misback:

The Institute of International Bankers (the "IIB") appreciates the opportunity to submit this letter in response to the request for comment issued by the Board of Governors of the Federal Reserve System (the "FRB") on its Principles for Climate-Related Financial Risk Management for Large Financial Institutions[1] (the "Proposal"). The management of climate-related financial risk is an important issue for our members, especially given ongoing international focus on this subject. As such, we welcome the opportunity to offer our unique perspective.

The IIB represents internationally headquartered financial institutions from over 35 countries around the world doing business in the United States. The IIB's members consist principally of international banks that operate branches, agencies, bank subsidiaries, and broker-dealer subsidiaries in the United States. The U.S. operations of foreign banking organizations ("FBOs") are an important source of credit for U.S. borrowers. FBOs comprise the majority of U.S. primary dealers and enhance the depth and liquidity of U.S. financial markets. FBOs also contribute greatly to the U.S. economy

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[1] Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 75267 (Dec. 8, 2022), available *here*

through the direct employment of U.S. citizens and permanent residents, as well as through other operating and capital expenditures.

FBOs recognize the global significance and importance of addressing climate-related financial risk. Many FBOs are already in the process of incorporating climate-related risk drivers into their existing risk management frameworks at their home offices or at the enterprise level, across multiple jurisdictions. As such, the IIB applauds the FRB's efforts to coordinate with other prudential regulators, both internationally and domestically, to ensure that climate-risk management guidance is consistent and principles-based. The IIB also supports plans by the Federal Deposit Insurance Corporation (the "FDIC"), the Office of the Comptroller of the Currency (the "OCC"), and the FRB to finalize the climate principles jointly.[2]

The IIB appreciates the high-level, principles-based approach taken in the Proposal, as noted in our comment letters to the FDIC and the OCC on their proposed climate-related risk management principles (see attached).[3] We agree with the objective that the FRB articulates for the principles: to "promote a consistent understanding" of climate-related financial risk management.[4]

We appreciate that the FRB recognizes that "the incorporation of climate-related financial risks into risk management frameworks *remains under development* in many financial institutions and *will continue to evolve over time*" and "that the incorporation of material climate-related financial risks into various planning processes will be *iterative*, as measurement methodologies, models, and data for analyzing these risks continue to mature."[5] We support the Proposal's clarification that scenario analysis, as a tool for financial institutions to assess climate-related financial risk, is exploratory and distinct from regulatory stress testing – and, accordingly, should not impact capital requirements.

The IIB also appreciates the evolution of the draft principles and that the Proposal appears to respond in places to the industry's feedback on the FDIC's and OCC's earlier proposals on climate-related financial risk management. For instance, we note that the Proposal, consistent with the IIB's comment letters to the FDIC and OCC, states that

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[2] Because FRB-supervised FBO branches and agencies are also supervised by state regulators, we urge the FRB to coordinate with state agencies, such as the New York State Department of Financial Services ("NYDFS"), with respect to their climate-related risk management guidelines as well. *See, e.g.*, NYDFS, Proposed Guidance for New York State Regulated Banking and Mortgage Organizations Relating to Management of Material Financial Risks from Climate Change (Dec. 21, 2022) ("NYDFS Proposed Climate Guidance"), available *here*.

[3] As relevant, this letter incorporates by reference comments included in our letters to the OCC and FDIC.

[4] 87 Fed. Reg. at 75267.

[5] 87 Fed. Reg. at 75268–69 (emphasis added).

institutions may incorporate climate-related financial risk management into existing risk management practices, rather than establish new, standalone structures.[6]

Accordingly, we focus our comments in this letter on provisions in the Proposal that are new, as well as certain other provisions that raise unique concerns when applied to the U.S. operations of FBOs subject to FRB supervision and regulation. In particular, as we discuss in more detail below, the IIB requests that the FRB make the following modifications to the final guidance.

- The final guidance should better reflect how FBOs govern their operations and risk management in the United States.

- The final guidance should clarify references to the "board of directors" as they relate to the U.S. operations of FBOs and expressly permit FBOs to rely on designated committees for board oversight of U.S. climate-related financial risk management.

- The final guidance should not be prescriptive in its expectations for the governance of scenario analysis exercises.

- The final guidance should clarify its applicability to the U.S. operations of FBOs.

I. The final guidance should better reflect how FBOs govern their operations and risk management in the United States

The IIB supports the flexibility that the Proposal provides to individual financial institutions in implementing climate-related financial risk management approaches that are consistent with their unique circumstances and proportionate to their respective risk profiles.[7] The IIB agrees that "[e]ffective risk management practices should be appropriate to the size of the financial institution," or, in the case of an FBO, the size of its U.S. operations, "and the nature, scope, and risk of its activities."[8] The IIB also appreciates that the FRB "anticipates that differences in financial institutions' complexity of operations and business models will result in different approaches to addressing climate-related financial risks."[9]

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[6] 87 Fed. Reg. at 75269.

[7] We note that this concept is also echoed and supported by the NYDFS in the NYDFS Proposed Climate Guidance which states that "Regulated Organizations should take a *proportionate approach* to the management of the climate-related financial risks they face, appropriate to each organization's exposure to climate-related financial risks." NYDFS Proposed Climate Guidance at 6 (emphasis added).

[8] 87 Fed. Reg. at 75268.

[9] Ibid.

We note that the FRB has in the past allowed FBOs to leverage the risk management practices of their U.S. operations with those of their global and home-office operations.[10] The final guidance should build upon how the FRB's risk-related regulatory obligations apply to FBOs today. For example, the Proposal allows for a financial institution's management to "identify, measure, monitor, and control climate-related financial risk exposures *within the financial institution's existing risk management framework*."[11] In the context of FBOs, the final guidance should recognize that climate-related financial risk management is often an enterprise-wide effort that routinely is developed and coordinated at the home office or group level. Accordingly, FBOs should be able to leverage existing risk management frameworks such as home-office or enterprise-level programs, policies, models, and procedures to comply with U.S. requirements. For example, as discussed in Section III below, many FBOs conduct exploratory climate scenario analysis exercises at the enterprise level to inform their global risk management frameworks.

II. The final guidance should clarify references to the "board of directors" they relate to the U.S. operations of FBOs and expressly permit FBOs to on designated committees for board oversight of U.S. climate-related financial risk management

The IIB appreciates the Proposal's delineation of the roles of a financial institution's management and board. However, we ask that the final guidance better reflect how FBOs operate their climate-related risk management governance structures. Specifically, the final guidance should expressly permit FBOs to rely on designated committees and existing U.S. risk governance (*e.g.*, a U.S. risk committee, or other relevant committee or entity) to conduct board oversight of climate-related financial risks in the United States. In addition, FBOs also should be able to rely on U.S.-based management for the relevant U.S. climate-related financial risk obligations of senior management. This arrangement would be more consistent with the FRB's risk governance framework and expectations for FBOs.

Regarding the Proposal's governance expectations more generally, and particularly its guidance on review of compensation policies,[12] we note that compensation practices already generally reflect risk metrics, which may be informed in part by climate-related financial risk. Compensation practices also are generally within the purview of a financial institution's governing body, consistent with their business and risk objectives, values,

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10 *See, e.g.*, Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations, 79 Fed. Reg. 17239, 17287 (noting that "foreign banking organizations generally may rely on their parent company's enterprise-wide risk management policies.") (Mar. 27, 2014), available *here*.

11 87 Fed. Reg. at 75269 (emphasis added).

12 87 Fed. Reg. at 75296.

and strategic goals. For FBOs, compensation practices may also be determined at an enterprise level.

III. The final guidance should not be prescriptive in its expectations for the governance of scenario analysis exercises

As mentioned above and in our letters to the OCC and FDIC, the IIB supports the use of scenario analysis, as distinct from regulatory stress testing. Many FBOs are conducting exploratory climate scenario analysis exercises at the enterprise level (in many cases to satisfy home country regulatory mandates or requirements) and climate scenario exercises need to remain distinct from any prudential stress tests. Climate scenario analysis exercises pursue fundamentally different objectives using different methodologies, indicators, and timeframes from prudential stress testing exercises, which are designed to test resilience against a historically large, short-term shock. It is therefore inappropriate for regulators to impose any capital requirements or other prudential consequences as a result of climate scenario analysis exercises – and we appreciate that the FRB continues to emphasize that it is not appropriate to do so.[13]

Based on the experiences of our members with scenario analysis, we also echo the Proposal's view that scenario analysis is still "*emerging* as an important approach" and that it may be used in "*exploring* the impacts of climate-related financial risks."[14] We welcome further dialogue with the FRB about how best to use scenario analysis to inform bank climate-related financial risk management policies and frameworks.

As noted in Section I above, the U.S. operations of FBOs often rely on home office or group-level models and procedures for climate-related financial risk management, including for scenario analysis exercises. Country- or state-level scenario analysis exercises may not fully capture the effects of "global emissions" or changes in "global temperatures."[15] Accordingly, the final guidance should reflect how FBOs conduct climate scenario analysis exercises at the enterprise level, and how home country or enterprise-level exercises inform the governance of U.S.-level risk management.

Finally, given the exploratory and evolving nature of scenario analysis, the final guidance should provide flexibility regarding the level of governance, validation, and communication required for any scenario analysis exercise.

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13 *See, e.g.* Jerome Powell, Senate Banking, Housing, and Urban Affairs Committee Hearing on the Nomination of The Honorable Jerome Powell (Jan. 11, 2022) ("I would stress that [climate stress scenarios] are very different from regular stress tests which affect capital.").

14 87 Fed. Reg. at 75270 (emphasis added).

15 87 Fed. Reg. at 75267 n. 2 (quoting Financial Stability Oversight Council, Report on Climate-Related Financial Risk, at 10 (Oct. 2021), available *here*).

IV. The final guidance should clarify its applicability to the U.S. operations FBOs

Based on the language of the Proposal, it is unclear how the final guidance would apply to FBOs. For instance, Footnotes 1 and 4 indicate applicability to "foreign banking organizations with respect to their U.S. operations."[16] In addition, Footnote 4 includes a reference to "intermediate holding companies."[17] However, Footnote 8 indicates that the FRB would "consider the total consolidated assets of a branch or agency itself for branches and agencies of" FBOs.[18]

Therefore, we recommend that the final guidance clarify that the principles apply to FBOs in a consistent manner based on the size of their combined U.S. operations.

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The IIB appreciates the opportunity to submit these comments. We look forward to engaging with the FRB and other agencies on the development of climate-related financial risk management principles.

Sincerely,

Beth Zorc
Chief Executive Officer
Institute of International Bankers
bzorc@iib.org

Attachments: IIB comment letter to the FDIC (May 31, 2022), IIB comment letter to the OCC (February 14, 2022)

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16 87 Fed. Reg. at 75268–79 n. 1, 4.

17 *Compare* 87 Fed. Reg. at 75268 n. 1 *with* Id. at 75269.

18 87 Fed. Reg. at 75268 n. 8.

Attachments

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May 31, 2022

James P. Sheesly, Assistant Executive Secretary
Attention: Comments—RIN 3064-ZA32
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions (RIN 3064-ZA32)

Dear Mr. Sheesly:

The Institute of International Bankers (the "**IIB**") submits this letter in response to the "Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions" issued by the Federal Deposit Insurance Corporation (the "**FDIC**") on March 30, 2022 (the "**FDIC Draft Principles**").[1] We welcome the FDIC's plans to release future guidance on the effective management of climate-related financial risks (the "**Final Guidance**"), and we appreciate the opportunity to provide our unique perspective on the topic. In sum, we believe that Final Guidance that is closely based on the FDIC Draft Guidance would support the work of financial institutions with respect to their climate-related financial risk management and would provide them with the flexibility that will allow them to do this work efficiently and effectively. We appreciate this opportunity to provide additional thoughts and look forward to engaging in further conversations on this topic with you and your team.

As FDIC Chairman Gruenberg and many others have made clear,[2] climate change and its associated financial risks are a global problem, necessitating dialog and coordination among regulatory and supervisory bodies across all jurisdictions. Disparate initiatives on climate-related financial risk across various jurisdictions could lead to circumstances in which different sets of requirements result in inefficient and duplicative efforts or even conflict with one another. To that end, the IIB applauds the FDIC's decision[3] to join the Network of Central Banks and Supervisors for Greening the Financial System, as well as its domestic coordination on climate-related financial regulatory work, including as a member of the Financial Stability Oversight Council ("**FSOC**"). We urge the FDIC to continue its cooperative efforts with domestic and international regulators, as well as with industry participants.

We especially applaud the FDIC for its cooperation with its domestic counterparts, including with the Office of the Comptroller of the Currency (the "**OCC**") on the OCC's own recent "Principles for Climate-Related Financial Risk Management" (the "**OCC Draft Principles**").[4] This kind of coordination

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[1] FDIC, Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 19507 (Apr. 4, 2022).
[2] Director Martin Gruenberg, FDIC Board of Directors, The Financial Stability Risk of Climate Change (Dec. 3, 2020).
[3] Chairman Martin Gruenberg, FDIC, FDIC Priorities for 2022 (Feb. 7, 2022).
[4] OCC, Principles for Climate-Related Financial Risk for Large Banks (Dec. 16, 2021), https://www.occ.treas.gov/news-issuances/news-releases/2021/nr-occ-2021-138a.pdf.

is critical to achieving a consistent regulatory regime for climate-related financial risk management, and the alignment between the draft principles of the FDIC and the OCC is encouraging.

Given the substantive similarities between the FDIC Draft Principles and the OCC Draft Principles, we offer below a high-level overview of our feedback and attach the IIB's comment letter submitted to the OCC, which addresses in considerable detail the text of the proposed principles.

At a high level, the IIB's comments focus on the following three points:

- The Final Guidance should continue to recognize that methodologies, models, and data for analyzing climate-related financial risk remain a work in progress;

- Domestic and international cooperation around consistent and comparable climate-related financial risk management principles is critical; and

- Any final guidance should consider the unique structure and governance of internationally headquartered financial institutions.

We believe that the FDIC Draft Principles embody a principles-based approach that would provide an internationally headquartered financial institution (which is subject to the laws and regulations of a non-U.S. jurisdiction on a consolidated, enterprise-wide basis) with the necessary flexibility to consider the regulatory posture of its home country and internationally agreed upon standards. Any Final Guidance that is consistent with the FDIC Draft Principles would be helpful and effective. If there are any material developments to the FDIC Draft Principles beyond the high-level approach already taken, we would expect that these developments would be open for additional review and comment to give industry and other stakeholders the chance to weigh in on these important issues.

The IIB supports the FDIC's approach to climate-related financial risk, and we appreciate the opportunity to share our perspective. We are, of course, available to discuss these comments and the specific concerns and experiences of our members, and we look forward to engaging in further conversation on this topic with you. Thank you for your consideration.

Sincerely,

Briget Polichene

Briget Polichene
Chief Executive Officer

Enclosure: IIB comment letter of February 14, 2022

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February 14, 2022

By Electronic Mail

Office of the Comptroller of the Currency
400 7th St. SW, Suite 3E-218
Washington, DC 20219

Re: Request for Feedback on Principles for Climate-Related Financial Risk Management for Large Banks (Docket ID OCC-2021-0023)

Dear Acting Comptroller Hsu:

The Institute of International Bankers (the "IIB") submits this letter in response to the request for public feedback on the "Principles for Climate-Related Financial Risk Management for Large Banks" (the "Draft Principles") issued by the Office of the Comptroller of the Currency (the "OCC") on December 16, 2021 (the "Request for Feedback").[1] We welcome the OCC's plans to release future guidance on climate-related financial risk management (the "Final Guidance"), a topic that is of great importance to many internationally headquartered financial institutions. We believe that Final Guidance closely based on the Draft Principles would effectively support and provide the needed flexibility to advance the efforts of financial institutions with respect to their climate-related financial risk management. We appreciate this opportunity to provide additional thoughts and look forward to engaging in further conversations on this topic with you.

A. IIB's Distinctive Perspective

The IIB represents internationally headquartered financial institutions from over 35 countries around the world doing business in the United States. The IIB's members consist principally of international banks that operate branches and agencies, bank subsidiaries, and broker-dealer subsidiaries in the United States.

Our members believe that financial institutions have an important role to play in facilitating the climate-related transition objectives of their clients and approach the topic of climate change and financial risk from an international perspective. Many of our members are headquartered in jurisdictions where financial regulators are in the process of implementing, or have implemented, regulations and supervisory expectations pertaining to climate-related financial risk. For instance, regulators in some of the jurisdictions of our members have formally assessed how financial institutions are managing climate-

[1] OCC, *Principles for Climate-Related Financial Risk Management for Large Banks* (Dec. 16, 2021).

related financial risk as compared to supervisory expectations or are asking financial institutions to conduct scenario analyses. In addition, many of our members already have deployed considerable resources toward the management of climate-related financial risk, including by developing greater internal climate risk management expertise (such as hiring dedicated personnel and teams), modeling and undertaking scenario analyses, and engaging with regulators on these issues.

We come to this Request for Feedback with enthusiasm about what principles-based, internationally consistent climate risk management guidance stands to achieve. We believe that a principles-based Final Guidance provides the best avenue for allowing financial institutions to make tailored risk management decisions and operate under multiple international regulatory regimes. As organizations in the business of managing risk, financial institutions are uniquely well-suited to help their clients meet their climate objectives and manage the challenges that a transition to a lower carbon economy could entail, while remaining focused on the financial institution's own management of physical and transition risks. Financial institutions have a role to play in the efforts of their clients to further climate-related transition objectives, including those clients operating in traditionally carbon-intensive industries. Participation in these efforts likely will take different forms and differ among financial institutions across timelines and geographies. Consequently, flexible, principles-based guidance – in contrast to prescriptive requirements[2] – maximizes the chances that financial institutions can bring innovation and resources to better support the climate-related transitions of their clients.

We would be pleased to meet with you to discuss the Request for Feedback and provide you with information about practices in non-U.S. jurisdictions, as well as our experiences with clients and other regulators. Further, under the understanding that the federal banking regulators are in dialog on this issue, we have copied the Board of Governors of the Federal Reserve System (the "Board") and the Federal Deposit Insurance Corporation ("FDIC") on this letter. We also have copied the New York State Department of Financial Services ("NYDFS"), which has also been focusing on climate-related risk management.

Below, we offer some additional considerations and request some key clarifications in relation to the issuance of any Final Guidance.

B. The Final Guidance Should Continue to Recognize that Methodologies, Models, an for Analyzing Climate-Related Financial Risk Remain a Work in Progress

We appreciate the OCC's acknowledgement in the Draft Principles that "incorporation of material climate-related financial risks into various planning processes is iterative as measurement methodologies, models, and data for analyzing these risks continue to evolve and mature over time." As the Financial Stability Oversight Council's ("FSOC") recent report similarly notes, "Defining, identifying, measuring, and monitoring exposures to climate-related financial risks will necessitate investment in data and analytic capacity by FSOC members, other government agencies, and the private sector."[3]

[2] As Governor Brainard has stated in the context of climate risk, "We would not tell banks which sectors to lend to or which sector to not lend." See also Board Chair Jerome Powell, as quoted in Law360 (Jan. 11, 2022) ("Climate is appropriate for us as an issue to the extent it fits within our existing mandates. I think it does, in the sense of it's another risk over time that banks are going to run. But the broader answer to climate change has to come from legislators and the private sector").

[3] FSOC, *Report on Climate-Related Financial Risk* (Oct. 21, 2021).

Methodologies, models, and data for analyzing climate-related financial risk remain a work in progress. To take the example of data gaps, financial institutions are both producers and consumers of data. A financial institution can only fully evaluate its own financial risks by drawing upon relevant and appropriate data situated outside the financial institution's own operations. Such data must be collected from its clients, counterparties, and transactions, and there is no question that consistent and comparable data is not always easily available and does not always exist.[4] For example, broad corporate public disclosure lacks standardization, rigor, and granularity, and forward-looking data from clients on their transition plans is weak at best. While these sources mature, banks must continue to rely upon approximations and extrapolations derived from less direct data sources.

We believe that financial institutions should continue working to identify and understand gaps in methodologies, models, and data. As Acting Comptroller Hsu suggested in a recent speech, the risk management processes of banks and the questions that their boards should start posing to management can have an important role in illuminating gaps in information and tools.[5] These endeavors will be non-trivial given the multitude of overlapping, often inconsistent, and rapidly evolving private and public sector definitions and measurement approaches to climate risk, reporting regimes, and the vetting of numerous regionally limited third-party data offerings. Even as data becomes more available, the proliferation of definitions and measurement approaches could complicate the efforts of financial institutions to incorporate this information into their risk management frameworks. Thus, such efforts will take time and likely will necessitate cooperation between regulators and the financial services industry.

Scenario analysis as a risk management tool also remains in development, and the accuracy and effectiveness of scenario analysis depends on the availability of high-quality data, as well as advancements in modeling over medium and long time horizons. The Draft Principles make clear that scenario analysis is just one tool alongside others in enhancing climate-related financial risk management. Any Final Guidance should continue this position, and additionally make clear that scenario analysis is a separate exercise, distinct from traditional stress testing, and is not intended to affect capital requirements or supervisory actions regarding U.S. operations. We believe that attempts by other jurisdictions to incorporate scenario analysis into stress tests or capital requirements are premature[6] and have created confusion based on how nascent measurement methodologies and data would influence current capital requirements. To maximize the potential effectiveness of any guidance related to scenario analysis, we would urge further dialog between regulators and industry. We would be pleased to discuss our experiences with scenario analysis in other jurisdictions with the OCC.

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[4] Like the OCC, domestic and international regulators and standard-setting bodies have acknowledged the data gaps that affect the measurement of climate-related financial risk. Reports by a number of authorities have emphasized this important issue. See, e.g., Basel Committee on Banking Supervision ("BCBS"), *Climate-related financial risks – measurement methodologies* (Apr. 14, 2021); Networking for Greening the Financial System ("NGFS"), *Progress report on bridging data gaps* (June 2, 2021); Financial Stability Board, *The Availability of Data with Which to Monitor and Assess Climate-Related Risks to Financial Stability* (July 7, 2021); FSOC, *Report on Climate-Related Financial Risk* (Oct. 21, 2021); European Systemic Risk Board, *Positively green: Measuring climate change risks to financial stability* (June 8, 2020); Climate Financial Risk Forum, *Climate Data and Metrics,* (Oct. 21, 2021). See also Board Gov. Lael Brainard, "Building Climate Scenario Analysis on the Foundations of Economic Research" (Oct. 7, 2021).

[5] Acting Comptroller of the Currency Michael J. Hsu, "Five Climate Questions Every Bank Board Should Ask" (Nov. 8, 2021).

[6] See, e.g., Sec. Janet Yellen, as quoted in Bloomberg Law (Feb. 2, 2022) ("It's just premature at this point to talk about raising capital requirements . . . it's really important that regulators do the groundwork that's necessary for them to evaluate risks to individual firms") and Board Gov. Lael Brainard, "The Role of Financial Institutions in Tackling the Challenges of Climate Change" (Feb. 18, 2021) ("To be clear, scenario analysis is distinct from our traditional regulatory stress tests at banks").

If finalized largely as written, the Draft Principles would allow sufficient leeway for, and encourage, the continued development of methods, models, and data to quantify and understand climate-related financial risks.

C. Domestic and International Cooperation Around Consistent and Comparable Change Risk Management Principles Is Critical

The risks and effects of climate change are rarely confined within state or national borders, making dialog and coordination among regulators essential. Disparate initiatives on climate-related financial risks among various jurisdictions could lead to circumstances in which different sets of requirements result in inefficient and duplicative efforts (or even worse, conflict with each other).

We applaud the OCC for its international work (e.g., participation in the NGFS as well as the BCBS's Task Force on Climate-related Financial Risks), its climate-related work under the FSOC umbrella, and other initiatives such as the creation of the Climate Change Risk Officer position, one of the aims of which was to expand the OCC's capacity to coordinate with stakeholders, and more. We urge the OCC to continue its coordination efforts among U.S. and international regulators (as the OCC indicated it would in development of the Final Guidance), as well as its dialog with industry participants. To foster clarity and efficiency, the Final Guidance should reflect the aggregate views of the U.S. prudential regulators (the Board, the FDIC, and the OCC) and, to the extent possible, consistency with state-level regulators. Inconsistent or uncoordinated guidance is likely to come at the expense of effective risk management.

Internationally headquartered financial institutions develop their risk management and strategic decisions for the consolidated organization at the level of head office, and the institution is subject to the laws and regulations of a non-U.S. jurisdiction on a consolidated, enterprise-wide basis. Consequently, a key consideration for an internationally headquartered financial institution is whether it can use the work that the financial institution does to understand, quantify, and manage climate-related financial risk in one jurisdiction across the organization to meet the expectations of other jurisdictions. Final Guidance that is flexible and principles-based, as the Draft Principles are, will allow for the development of methodologies, models, and data that are fit for multiple purposes across entities and geographies, including both host and home country supervisory expectations. Moreover, additional multinational and international frameworks for data, risk measurement, and other key financial institution tasks will undoubtedly be developed and adopted, and we urge the OCC to maintain sufficient flexibility such that a financial institution's adoption of those international standards will exhibit compliance with U.S. regulatory expectations as well. We believe that Final Guidance that incorporates the principles-based expectations of the Draft Principles would provide internationally headquartered financial institutions with the necessary flexibility to consider the regulatory postures of their home countries and of internationally agreed upon standards.

Even in the context of internationally consistent and comparable risk management guidance, issues will remain that should be addressed through cooperation among regulators. To name just a few examples, entities within an affiliated financial institution group that are subject to the rules of different jurisdictions are likely to encounter inconsistent timing requirements for implementation or for meeting regulatory expectations. Furthermore, the Draft Principles, like other climate-related financial risk management pronouncements by international regulators and standard-setters, use the term "material." Guidance from the OCC and other U.S. regulators should clarify that each institution should be able to make decisions of materiality based on its own facts, circumstances, geographical footprint, home country regulator, and other similar factors. In addition, "materiality" also has a specific meaning in the securities law context, and regulators should acknowledge that the investor focus of the securities laws and their disclosure requirements (including conservative development of forward-looking risk factors) does not necessarily equate to what may be material for safety, soundness, and risk management purposes. These competing meanings of “materiality” provide just one example of the importance of flexible, principles-based guidance.

D. Any Final Guidance Should Consider the Unique Structure and Governance of Internationally Headquartered Financial Institutions

An important undercurrent to our comments is the theme of adaptability and iteration. We believe that flexible, principles-based Final Guidance in the same vein as the Draft Principles would best accommodate the ever-evolving climate risk management landscape. Supervisory activity stemming from the Final Guidance also should consider the reality that best practices around climate-related financial risk management remain in development and should support rather than dictate the efforts of firms to refine, readjust, and revisit their approaches in light of evolving capabilities and circumstances. To that end, any Final Guidance should constitute “guidance” under the OCC’s framework for guidance. [7] We also would expect that the OCC would provide reasonable timeframes for banks to incorporate the principles of the Final Guidance into their risk management processes. Rather than require conformance with the new guidance by a certain date, the Final Guidance should focus on ensuring that banks are working effectively, in good faith, to establish and evolve their climate-related financial risk management practices. Any timeframes for implementing the Final Guidance should reflect and accommodate the iterative nature of climate-related financial risk management, particularly given limitations with respect to models, methodology, and data, as well as potential compliance obligations in different jurisdictions.

We applaud the OCC for its statement that it will tailor the Final Guidance “to reflect differences in banks’ circumstances such as complexity of operations and business models.” There are many different factors that shape a bank’s climate-related financial risk profile (for example, even institutions that are the same size could have very different climate-related risk exposures). As previously mentioned, for internationally headquartered banks operating in the United States, the unique structure of their operations reflects a further need for appropriate tailoring to take into account the fact that enterprise-wide risk management principles, analyses, and business strategies are established by a bank’s board and management at head office, and any risk management policies, procedures, and principles applied in the United States must necessarily be consistent with those enterprise-wide mandates. We also would ask that the OCC clarify that the Draft Principles (and subsequent Final Guidance) apply only to federal branches / agencies that have over $100 billion in total consolidated assets at the branch or the agency level and, separately, to internationally headquartered national bank subsidiaries of financial institutions that have over $100 billion in total consolidated assets.

We believe that Final Guidance that reflects the principles-based approach of the Draft Principles would be helpful and effective. If there is any material development of the Draft Principles beyond the high-level approach already taken (as we note that the OCC indicated that it likely would present a more granular Final Guidance taking into account additional views from the Board and FDIC, as well as further research into climate-related financial risk management), we would expect that these developments would be open to additional review and comment to give industry and other stakeholders the chance to weigh in on these important issues.

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[7] OCC, Role of Supervisory Guidance, 86 Fed. Reg. 9253 (Feb. 12, 2021).

We appreciate your consideration of our comments and would welcome the opportunity to discuss these comments and the specific concerns and perspectives of our members.

Sincerely,

Briget Polichene

Briget Polichene
Chief Executive Officer
Institute of International Bankers
bpolichene@iib.org

cc: Board of Governors of the Federal Reserve System

Federal Deposit Insurance Corporation

New York State Department of Financial Services